IWIinvestor Investment Report:

Markets Summary, Quarter End – June 2018

The pace of global growth slowed a touch over the June quarter, but overall conditions remain strong and consistent with global growth remaining above trend levels. Given the backdrop, global equities performed modestly well, however, performances were quite mixed with some markets performing very well, and some poorly.

Currency markets also had a mixed performance, with the NZ dollar hit particularly hard. This boosted the return on offshore equities and property (on an unhedged basis). Overall, the period highlighted the importance we place on designing and maintaining a well-diversified portfolio – enabling it to benefit from strong markets, and to be cushioned from markets not doing so well.

Australian equities in the June quarter were the stand-out performer, returning around 11.5% in NZD terms given the fall of the Kiwi against the Australian dollar. In contrast, Emerging Markets, which were resilient to the sell-off early in the year, fell by around 2% in NZD terms. The Chinese equity market fell much more (it is the worst performing large market in the World over the past year), and this was largely attributed to an escalation in trade tensions with the US following the decision of the US Administration to impose tariffs.

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Index Returns

Below we report returns from general market benchmarks to show market trends and the performance differences between sub-asset classes in the market. In addition, we have included a 'base currency' conversion table to accompany the benchmarks summary and a calculation of NZD hedged returns. This enables us to look at performance on a local currency basis, in NZD terms, and in NZD hedged terms. Currency can have an important impact on returns, and hence evaluating market and Fund returns needs to consider currency impacts.

Global large cap developed market equities increased around 2% in local currency terms and a much higher 8.3% in NZD terms given the decline in the NZD over the period, particularly versus the USD which has been increasing against most currencies given the robust economic growth picture in the US and interest rate increases. The annual NZD return to global large cap equities is around 20.2%. On a NZD hedged basis, international equity returns were around 4% for the quarter and 11.5% for the year. The large decline in the NZD over the past year has hence made a material difference in the return from hedged versus unhedged exposures.

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Within global equities value stocks lagged, declining around -0.2% in local currency terms. In contrast, small caps out-performed, increasing around 3.3% in local currency terms and 10.1% in NZD terms. Year to date global small caps have out-performed and over 1, 3, 5-year horizons. In contrast, the MSCI value index still lags the market over these horizons.

Emerging Market equities fell around 2% in the quarter, bucking the global bounce-back trend. They had, however, been resilient to the March quarter market sell-off. The year to date performance remains strong with NZD returns around 17%.

The NZ equity market also performed well, increasing 7.5% in the quarter through broad based gains. Over the past 5 years New Zealand's equity market is a stellar performer, returning around 15% per annum.

The Australian share market also had a very good quarter, returning 11.3% in NZD terms. Around 3% of this increase reflected, however, a strong climb of the Aussie against the Kiwi dollar and much of the return was bounce back from a very poor March quarter. On an annual basis, Australian large cap equities have returned around 16.5% in NZD terms, a very strong performance but still weaker than the return from global, emerging and NZ equities over this period.

Within the Australian market value stocks mildly out-performed, and have delivered a modest premium to the market over 3 and 5-year horizons, unlike global value stocks. Australian small cap stocks returned 10.5% for the quarter, lagging large caps, but have out-performed over 1, 3 and 5-year horizons in line with global small caps

Global bonds mildly increased in the quarter and returned 2.2% for the year. This return is lower than the (NZD hedged) coupon on international bonds, and reflects bonds being re-priced lower over the period as interest rates have risen ahead of what markets had expected. This is both due to a rise in implies treasury rates and credit spreads, which are now back to levels more consistent with longer term averages.

New Zealand Fixed Interest returned around 1.1% and around 4.4% for the year. The annual return is both comfortably higher than 90-day NZ bank bill rates and term deposit rates, indicating that NZ corporate bonds have delivered a good premium over the year.

International Property stocks bounced strongly over the June quarter following the March sell-off. Returns were around 13% in NZD terms, although around half of this is attributable to our currency decline. NZ and Australian listed property stocks also fared well in their quarter, although over the year NZ listed property stocks have returned only around 1%; much lower than the return from international and Australian property.